

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
NOVEMBER 19, 2019**

ITEM 3

SUBJECT

CONSIDERATION OF A PROPOSED RESOLUTION TO AUTHORIZE THE DEPUTY DIRECTOR OF THE DIVISION OF FINANCIAL ASSISTANCE TO PROVIDE PROPOSITION 1 GROUNDWATER GRANT PROGRAM FUNDING AND SEAWATER INTRUSION CONTROL LOAN PROGRAM FUNDING FOR THE SOQUEL CREEK WATER DISTRICT'S PURE WATER SOQUEL: GROUNDWATER REPLENISHMENT AND SEAWATER INTRUSION PREVENTION PROJECT

DISCUSSION

Soquel Creek Water District (District) serves a population of approximately 40,000 in the City of Capitola and surrounding unincorporated areas. The District is supplied solely by groundwater, which is sourced from a basin that the Department of Water Resources (DWR) has designated as being in a state of critical overdraft. In addition, the District has detected seawater intrusion in its groundwater supply aquifers.

Proposition 1 allocated approximately \$670 million for projects that prevent or cleanup contamination of groundwater that serves or has served as a source of drinking water. The State Water Resources Control Board (State Water Board) adopted and then amended the Proposition 1 Groundwater Grant Program (GWGP) Guidelines (GWGP Guidelines) on May 18, 2016 ([Resolution No. 2016-0028](#)) and December 19, 2017 ([Resolution No. 2017-0075](#)), respectively.

Awards for the Round 1 solicitation were completed in 2018. As part of the Round 1 solicitation, the District was awarded a \$2,000,000 planning grant for the Pure Water Soquel: Groundwater Replenishment and Seawater Intrusion Prevention Project (Project). Round 2 awards are expected to be complete by the end of 2019.

The District submitted a full proposal for the Round 2 solicitation, requesting \$50,000,000 in implementation grant funds, with matching funds of \$50,068,000. The Project includes monitoring wells, injection wells, and conveyance piping to recharge the Santa Cruz Mid County Groundwater Basin with recycled water. When successfully completed, the Project will prevent seawater intrusion and provide approximately 1,500 acre-ft per year of additional water supply.

The District's full proposal was reviewed by a technical team consisting of staff from the Division of Financial Assistance (DFA), the Central Coast Regional Water Quality Control Board (Regional Water Board), the Division of Drinking Water (DDW), and DWR. DFA has determined that the Project addresses the GWGP eligibility requirements and prioritization criteria, as well as several program preferences.

The Seawater Intrusion Control (SWIC) Loan Program was established by Proposition 204 in 1996. The State Water Board adopted the SWIC Loan Program Guidelines (SWIC Guidelines) on October 23, 1997 ([Resolution No. 1997-097](#)). Proposition 13, which was passed by voters in 2000, allocated approximately \$23.5 million for the SWIC Loan Program. Demand for these funds has been limited and only three projects have been awarded over the past two decades.

The District has submitted an application for SWIC Loan Program funding for the Project. The SWIC Guidelines limit funding to \$2.5 million per applicant and contain other outdated and restrictive requirements which have prevented the award of remaining funds; therefore, staff are recommending that the Deputy Director of DFA be authorized to waive requirements and restrictions in the SWIC Guidelines in a manner consistent with applicable statutes.

ENVIRONMENTAL IMPACT

State Water Board staff reviewed the District's environmental documents and based on available information has determined that the Project will not result in any significant adverse water quality impacts.

The District is the Lead Agency under the California Environmental Quality Act (CEQA) and has complied with CEQA and the CEQA Guidelines. The District prepared an Environmental Impact Report (EIR) for the Project. The EIR was distributed to the public and circulated through the State Clearinghouse (No. 2016112045) from June 29, 2018 through August 13, 2018 for public review and comments. The District received five comment letters from public agencies, seven from non-governmental organizations, and 95 from individual members of the public. The District responded to all comments in the Responses to Comments document, which was incorporated into the EIR.

The District certified the EIR, adopted a Mitigation Monitoring and Reporting Program (MMRP), and approved the Project on December 18, 2018. The District filed a Notice of Determination (NOD) with the Santa Cruz County Clerk on December 19, 2018 and the Governor's Office of Planning and Research (OPR) on January 23, 2019.

State Water Board staff will file an NOD for this Project with the OPR if funding is approved.

Per Resolution No. 2017-0075, projects are subject to State Water Board approval if they are determined to be non-routine or controversial. The Project is considered controversial because the District is in litigation with an individual who is challenging the District's certification of the EIR (CEQA litigation). A hearing on the merits is scheduled during November 2019.

POLICY ISSUE

Should the State Water Board:

1. Authorize the Deputy Director of DFA or designee to approve Proposition 1 GWGP funds up to \$50,000,000 for the District's Project?
2. Authorize the Deputy Director of DFA or designee to approve SWIC Loan Program funds for the District's Project, in accordance with the results of the District's credit review, estimated at \$12,535,011 million, with a 1.3% interest rate and 20-year term?
3. Authorize the Deputy Director of DFA or designee to waive requirements and restrictions of the SWIC Guidelines in a manner consistent with applicable statutes?
4. Authorize the Deputy Director of DFA or designee to award funds and execute funding agreement(s) with the District for the Project consistent with the amounts in Items 1 and 2, notwithstanding the CEQA litigation?
5. Authorize the Deputy Director of DFA or designee to: include conditions in the funding agreement(s) such that DFA may withhold the disbursement of funds until the CEQA litigation is resolved in the District's favor, to the satisfaction of the State Water Board's counsel; include terms in the funding agreement(s) such that the Deputy Director of DFA will terminate the agreement(s) if the ongoing CEQA litigation is not resolved in the District's favor, satisfactory to the State Water Board's counsel, by June 30, 2020; and approve an extension of up to a 120-days for good cause?
6. Authorize the Deputy Director of DFA or designee to add additional conditions or modify standard conditions in the funding agreement(s) for the Project, as needed?

FISCAL IMPACT

Proposition 1 provided approximately \$670 million for the GWGP. If the District is awarded approximately \$50,000,000 in GWGP funding, then approximately \$160 million will remain uncommitted.

Proposition 13 provided approximately \$23.5 million for the SWIC Loan Program. If the District is awarded approximately \$12.5 million then the balance of remaining funds will be committed to projects.

REGIONAL BOARD/DISTRICT OFFICES IMPACT

The Regional Water Board, DDW, and DWR will be assisting with the technical review and evaluation of project deliverables during project implementation.

STAFF RECOMMENDATION

DFA staff recommends adoption of the proposed resolution.